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Alan Baughcum Federal Communications Commission 2000 M Street, N.W., Room 531 Washington, D.C. 20554

Re: Review of the Prime Time Access Rule; MM Docket No. 94-123

Dear Mr. Baughcum:

I am writing to follow up our discussion of last week. Please find enclosed the materials you requested from Professor Woroch relating to Noll, Peck & McGowan's welfare estimates.

In addition, Professor Woroch has reviewed the "Surrebuttal and Further Econometric Evidence," prepared by The Law and Economies Consulting Group. While this 110-page report is dated July 7, 1995, it was not filed with the Commission (or served on us) until July 11, after our meeting with you. As I explained in our telephone conversation today, the report does not provide any effective refutation of Professors Williamson and Woroch's critique of LECG's earlier work. If you need additional information, please feel free to contact me.

If you have any questions, please do not hesitate to call.

Sincerely yours,

W. Stephen Smith

Counsel for the Coalition

to Enhance Diversity

Enclosure

#1415

cc: William F. Caton, Acting Secretary Alan Aronowitz, Esq.

Noll, Peck + McGowan's Welfare Estimates Messure of Welfare quarifican Using a Cobb-Donglass utility function, aggregate commoner surplus can be written as: No 9 = low 1 No 9 = 1+ Lu T where W= aggregate C.S. and $lnT = ln\left(\frac{B_0^c}{F_0^f}\right) + \sum_{i=A,I,E,D} \lambda_i ln\left(1+N_i\right)$ "A refersto officiales," I to independents, and so on. of we simply compare a given number of applicated and independent stations (NA, NI) to no stations at all, this last expression becomes InT = AA Puc(+NA)+ AI luc(+NI) because in that case $\beta_0^c/\beta_0^f=1$ (see Nollet. al, p 203) We can then compute welfare as a percentage of average household income for any combinations of stations using: W= W= 2 ln(1+NA) + 2 ln(4NI) No 9 = 1+ 2 ln(4NA) + 2 ln(4NI) See fortuste to Table A-2 in Noll, et.al.

Confidence Intervals for Point Estimates Using cofficient estimates from the linear regressions, i've have. (Se; = standard error og coefficient i 1:-2: ~ tx-K where n-K = 31-7 = 24 degrees of freedom. meregne the 100 (1-27% confidence interval for the ith coefficient is: $[\lambda_i - t_{k/2}, se_i, \lambda_i + t_{k/2}, e_i]$ So, eg., the 95% confidence interval for 24, the coefficient on the number of applicate stations is [0.0385-(2.064) (0.0093) 0.0285+(2.004) (0.0093)] or equivalently, [1.970, 5.8 70]

Similarly of $\lambda_{\rm I}$, we find [-0.170, 2.170] so that the CI's of the two coefficients everlap.

A more precise test to determine whether affiliat or independent stations contribute more to welfar, is a test of the hypothesis: $H: \lambda_A = \lambda_I$. This can be done using the statistic

 $\frac{(\lambda_{A} - \lambda_{I}) - (\lambda_{A} - \lambda_{I})}{\hat{S}(S_{AA}^{2} - 2S_{AI} + S_{II}^{2})^{2}} \sim t^{2}$

where Sij is (i, j) the element of (X'X) where X is matrix of all endependent variables.

This test reduces to the above congrues of the two C.I's provided SAI. Nell et al. do not provide this information. Note however, that the sample covariance between the number of affiliated and independent station must be nearly years because they are exactly three networks in each of the markets. Attel case, SAI will be nearly years.

Confidence Fortewals for helpare totainales
To form C.I.'s for the WMPT measures of welfare,
note that, since $\hat{\lambda}_i - \hat{\lambda}_i \sim t_{n-k}$ we have:

 $= \Pr\left(\hat{\lambda}_{i} - t_{\alpha/2}, se_{i} \leq \lambda_{i} + t_{\alpha/2}, se_{i}\right)$ $= \Pr\left(\lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right] \leq \lim_{(i+N_{i})} \lambda_{i} \leq \lim_{(i+N_{i})} \left[\hat{\lambda}_{i} + t_{\alpha/2}, se_{i}\right]$ $= \Pr\left(\lim_{(i+N_{i})} \left[\hat{\lambda}_{i} + t_{\alpha/2}, se_{i}\right] \leq \lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right]$ $= \Pr\left(\frac{1}{1 + \left[\lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right]} \right) \leq \lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right]$ $= \Pr\left(\frac{1}{1 + \left[\lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right]} \right) \leq \lim_{(i+N_{i})} \left[\hat{\lambda}_{i} - t_{\alpha/2}, se_{i}\right]$

 $w_{i} = \frac{\lambda_{i} \ln (1+N_{i})}{1 + \lambda_{i} \ln (1+N_{i})} = \frac{1}{1 + 1} \left[\frac{1}{\lambda_{i}} \ln (1+N_{i}) \left[\frac{1}{\lambda_{i}} + \frac{1}{\lambda_{i}} + \frac{1}{\lambda_{i}} \right] \right]$

For example, for WA, - Un 55% C.I. is

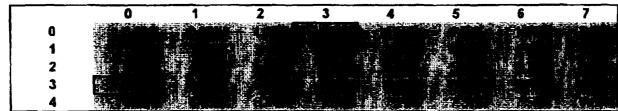
1 + 1/ln (4) [0.03554(2.064)(0.0011)]

01, (2.61%, 7.41%)

VIEWER WELFARE FOR VARIOUS COMBINATIONS OF NETWORK AND INDEPENDENT STATIONS

Independent Stations

Affiliate Stations



Note: Viewer welfare measured in percent of average household income.

Coefficient				Lower	Upper	Welfare	Lower	Upper
<u>Variable</u>	Estimate	Std Error	t Value	Bound	Bound	Estimate	Bound	Bound
Affiliates			2.60				100	
Independents		0.60	2 通道					

Note: 95% confidence intervals overlap for both coefficient estimates and welfare estimates.